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SUBJECT: Minsk Wants Bilateral WTO Negotiations

Refs: (A) Minsk 492, (B) Minsk 955, (C) Minsk 1145

11. (U) Summary: Econoff met September 13 with MFA representatives Anton Kudasov, Deputy Director of the Directorate of Foreign Trade, and Sergey Gulevich, Deputy Head of the Division of Foreign Trade Policy, to discuss Belarus' accession to the World Trade Organization. Kudasov argued strongly for capital based bilateral negotiations with the U.S. prior to the next meeting in Geneva, on the assumption only this would bring Belarus progress toward joining the WTO. However, he does not believe WTO membership will have much effect on the Belarusian economy (despite experts' predictions), and does not think Belarus would be harmed if Russia acceded first. Kudasov dismissed several potential hurdles to Belarusian membership, such as border confiscations, the Golden Share, and lack of IPR protection. End summary.

Want Capital Based Negotiations

12. (U) Kudasov said the GOB very strongly desires a meeting with U.S. WTO negotiators in either Minsk or Washington in advance of the October 24 meeting in Geneva, followed by bilateral consultations with the U.S. in Geneva and Hong Kong. He claimed the meetings in Geneva have not been as fruitful as the GOB would like. Specifically, he thanked the U.S. side for providing detailed guidance on services, and wants similarly detailed guidance on how Belarus should progress in dealing with trade in goods. Kudasov commented that the sooner Belarus and the U.S. could begin discussing issues line by line the better, as Belarus hopes to have a draft report ready by spring 2007. He argued that a draft report is needed to help prod the Belarusian bureaucracy to take actions to comply with WTO regulations. The GOB also asked that the U.S. quickly conclude bilateral negotiations with Russia, as Belarus closely coordinates its trade policy with Russia. The GOB expects the U.S. and other countries to demand the same commitments from Belarus as they will from Russia. Kudasov stated, "It will not be politically acceptable to Minsk if demands on Belarus differ from those on Russia."

WTO Will Not Adversely Affect Belarusian Economy?

13. (SBU) Kudasov believes joining the WTO will not greatly impact Belarus' economy, mainly because a majority of Belarus' trade (50 to 70 percent) is already duty free to other members of the Commonwealth of Independent States. He also did not believe that

any of the changes that Belarus will have to undertake would have much of an effect. As an example, he argued that when Belarus and Russia changed the way VAT is collected on their bilateral trade last January, it had little impact on trade levels. [Note: according to recent MFA statistics, trade with Russia fell 8.9 percent after the VAT change (ref C).]

¶4. (U) However, experts from the Economy Institute at Belarus' Academy of Sciences disagree, believing WTO accession will disrupt the economy. Specifically, they think joining the WTO will hurt Belarusian light industry, construction, and communications, none of which they argue are ready to compete internationally. The Academy's experts told the press joining the WTO will increase the number of loss-making companies in light industry. While Belarus could conversely benefit from a lifting of EU quotas on textiles, currently Belarusian industry is exporting below the level of the quotas, so no surge in exports is likely after accession. They also state that Belarus' communications industry, almost entirely state owned, will not be able to compete with foreign firms.

Russia: Cooperation, but No Energy Price Increase

¶5. (U) Kudasov stated that Belarus is working closely with Russia towards WTO accession. Minsk is copying Russian trade legislation and is trying to harmonize fully its tariffs with Russia. [Note: an official with the Russian-Belarusian Union State told the press the two have unified 86 percent of tariffs.] He said Belarus' new Law of Foreign Trade is nearly identical to Russia's, and both are based on GATT principles. Kudasov denied that Belarus would face any problems if Russia joins the WTO first, insisting that "this is not a race," and said Russian accession would even solve a number of trade problems. In particular, Kudasov complained about existing Russian trade barriers to alcohol and pharmaceuticals, which he expects to fall once Russia joins the WTO.

¶6. (U) When asked, Kudasov denied that Russian accession would result in Belarus paying higher rates for natural gas and oil, at least in the short term. He expects Russia will continue offering Belarus discounted energy for two to three years, after which Russia would be forced to raise prices to secure needed investment in new oil and gas fields. Belarus would likewise raise the amount it charges for transit, which Kudasov believed would largely offset the increased energy prices.

¶7. (U) On September 6 Belarus' Deputy Foreign Minister Aleksandr Mikhnevich announced at the Belarusian-Russian Economic Forum that Belarusian-Russian trade will be unaffected by the WTO as the two states will continue to offer each other trade preferences and "insist on developing mechanisms for mutual protection of the common market of Belarus and Russia against unfair competition from third countries. It is especially important for automobile, chemical and light industries."

Confiscations? Not a Problem

¶8. (SBU) Several weeks ago the U.S. Department of Commerce issued a warning to American businesses to avoid transiting goods through Belarus because of a high rate of border confiscation. Ever since Belarusian Customs and media have been loudly proclaiming there is no problem with border confiscations. Kudasov acknowledged there is somewhat of a confiscation problem, but stated it is only a matter of Belarusian legislation and would have no impact on joining the WTO. He said the GOB is preparing data on the true scale of border confiscations, and that the head of the State Customs Committee, Aleksandr Shpilevsky, would travel to Geneva in October to discuss confiscations. [Note: the GOB earns significant sums of money from confiscating transiting goods and reselling them in a series of shops around the country (ref A). The Russian Embassy in Minsk told us several times that Belarus confiscates USD 100 million worth of Russian goods each year, and the Kazakh Embassy recently said they lose USD 60 million annually. A number of other embassies, particularly the Polish and Lithuanian, also complain of regular confiscations.]

No Golden Share Problem Either

¶9. (SBU) Likewise Kudasov denied that Belarus' use of the Golden Share would prove any barrier to the WTO. He insisted Belarus uses the Golden Share only in extremely rare cases, and then only to protect workers when their salaries are not being paid or to prevent social disturbances. Nonetheless, the GOB's Golden Share expert will also travel to Geneva to explain the true state of things to the WTO. [Note: The GOB has invoked the Golden Share to take control of at least nine companies since the beginning of the year. Their usual practice is to invoke this mechanism to take temporary control of a company that has refused to sell a majority share to the GOB, then issue to themselves large amounts of highly undervalued shares until the state owns 99 percent of the firm (ref B).]

IPR also Not an Issue

¶10. (U) Continuing in this vein, Kudasov refuted that Belarus' current lax enforcement of IPR violations would cause any problems with the WTO. He claimed the GOB has a commission which has "defined responsibilities for implementing IPR enforcement," and argued that protecting IPR was in the GOB's own interest, particularly as President Lukashenko advances his plans to build a high-tech park. These plans will force the GOB to begin enforcing IPR violations.

Geographic Indicators

¶11. (U) Kudasov also commented that the GOB is very closely following the debate over geographic indicators. He opined that the WTO is coddling individual countries too much and giving too much weight to their arguments to protect specific geographic indicators. He would prefer for the European Union to reign in certain member states (i.e. France) on this issue. [Note: Belarus would be affected by this decision, if only because it produces champagne, of sorts.]

Comment

¶12. (SBU) Kudasov provided a rosy picture of Belarus' WTO negotiations and the Belarusian economy, which contradict that of Belarus' own experts. His statements on trade with Russia, confiscations, the Golden Share and IPR all strictly followed the official GOB line that there is no problem. Other experts are less sure; for example the World Bank is considering a study to see what affects early Russian accession would have on Belarus. Kudasov was clearly frustrated at the slow rate of negotiations, but believes direct capital based talks with the U.S. (rather than real progress by the GOB) are what is needed. This echoes the line Deputy Foreign Minister Mikhnevich took with Ambassador recently. Mikhnevich, who attended part of the last Geneva talks, urged the U.S. to meet in Minsk or the U.S. to continue discussions. Ambassador replied that the U.S. side was not terribly impressed with the Belarusian performance in Geneva, and did not see enough real progress to justify further meetings at this stage. It appears though a priority of the MFA to push for meetings regardless of the lack of seriousness in the GOB's WTO accession efforts.

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